

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

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R 210615Z JAN 75

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 2553

INFO AMEMBASSY BELGRADE

AMEMBASSY BUCHAREST

AMEMBASSY MOSCOW

AMCONSUL MUNICH

AMEMBASSY PRAGUE

RUDKSUQXAMXBASSY SOFIA 1354

AMEMBASSY VIENNA

AMEMBASSY WARSAW

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E.O. 11652: N/

A

TAGS: EFIN, ETRD, HU

SUBJ: NATIONAL BANK PRESIDENT ANNOUNCES A TIGHTER CREDIT POLICY

1. SUMMARY: IMV STATEMENT ON CREDIT POLICY DURING 1975, HUNGARIAN NATIONAL BANK PRESIDENT LASZLO STATED THAT INTEREST RATES ON BANK LOANS FOR WESTERN MACHINERY IMPORTS WOULD BE INCREASED BY 1.5 PER CENT IN EFFORT TO REDUCE HUNGARIAN HARD-CURRENCY FOREIGN TRADE DEFICIT WHILE CIRCULATING FUND CREDITS WOULD BE RAISED BY 1 - 1.5 PER CENT TO DISCOURAGE EXCESSIVE STOCK-PILING. ENTERPRISES WISHING TO QUALIFY FOR BANK CREDITS WOULD NOW BE REQUIRED TO RAISE 30 PER CENT OF FUNDS THEMSELVES IN AN EFFORT TO DISCOURAGE AMBITIOUS EXPANSION PLANS BY FINANCIALLY WEAK ORGANIZATIONS. WHILE LASZLO SAID THAT

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GOVERNMENT WOULD USE SAME GUIDELINES AND CONDITIONS FOR

GRANTING CREDITS IN 1975 AS DURING THE PREVIOUS YEAR, HE ADDED THAT BANK HAD BEEN INSTRUCTED TO PURSUE A MORE CONSISTENT PRACTICE IN THE USE OF THESE GUIDELINES. END SUMMARY

2. IN REVIEWING LAST YEAR'S PERFORMANCE, LASZLO NOTED THAT INVESTMENT IN THE SOCIALIST SECTION DURING '74

EXCEEDED 119 MILLION FORINTS. BANK INVESTMENT CREDITS TOTALED MORE THAN 16 MILLION FORINTS, A RISE OF 3,500 MILLION FORINTS OVER 1973. NEVERTHELESS, THERE WAS A LAG IN THE USE OF AVAILABLE CREDITS IN 1974 DUE TO SLOW FORWARD MOVEMENT ON INVESTMENT PROJECTS ALREADY IN PROGRESS AND TENDENCY OF CERTAIN ENTERPRISES TO OVER-INSURE THEMSELVES FINANCIALLY BY OBTAINING CREDITS BEFORE THEY ACTUALLY COULD BE PUT TO USE.

3. DURING 1975 A TIGHTER AND MORE CENTRALLY DIRECTED INVESTMENT POLICY WILL PREVAIL. WHILE TOTAL INVESTMENT WILL RISE ABOUT 10 PER CENT TO 129-130 MILLION FORINT LEVEL, RATE OF GROWTH FOR ENTERPRISE AND COOPERATIVE INVESTMENTS WOULD BE CONSIDERABLY LESS THAN THIS, RISING ONLY 5 PER CENT FROM 65 MILLION FORINTS TO 68 MILLION FORINTS. NATIONAL BANK'S CREDIT POLICY WAS TO GIVE PRIORITY TO THE RAPID CONCLUSION OF INVESTMENTS ALREADY IN PROGRESS, THE ESTABLISHMENT OF CAPACITY CAPABLE OF PRODUCING HARD-CURRENCY REVENUES AT AN EARLY DATE, THE DEVELOPMENT OF INDUSTRIES CAPABLE OF A PROFITABLE PATTERN OF PRODUCTION, AND THE PURCHASE OF EVER-INCREASING NUMBERS OF MACHINES FROM OTHER CEMA COUNTRIES.

4. IN ADDITION TO ENCOURAGING HUNGARY'S HARD-CURRENCY EARNING CAPACITY, BANK ALSO HOPED TO REDUCE HARD-CURRENCY TRADE DEFICIT THROUGH INCREASE IN INTEREST RATES ON LOANS FOR PURCHASE OF MACHINES AND EQUIPMENT IN CONVERTIBLE CURRENCY. THE INTEREST RATES ON SUCH LOANS WOULD HENCEFORTH BE RAISED BY 1.5 PER CENT. AT SAME TIME FINANCIALLY WEAK ENTERPRISES WOULD BE DISCOURAGED FROM AMBITIOUS EXPANSION PLANS BY NEW GUIDELINE REQUIRING THEM TO COVER A MINIMUM OF 30 PERCENT OF ANY CONTEMPLATED INVESTMENT FROM THEIR OWN LIMITED OFFICIAL USE

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RESOURCES. FINALLY, THE HEAVY STOCKPILING WHICH IS ESPECIALLY COMMONPLACE IN THE CHEMICAL INDUSTRY, METALLURGY, LIGHT INDUSTRY, AND ENGINEERING WOULD BE DISCOURAGED BY RISE IN RATE TO TUNE OF 1-1.5 PER CENT FOR CIRCULATING FUND CREDITS.

5. COMMENT: LASZLO'S REMARKS ARE A CLEAR INDICATION THAT THE CREDIT MECHANISM WILL BE ONE OF THE CHIEF TOOLS

USED BY THE GOVERNMENT TO EXERCISE TIGHTER CONTROLS OVER ENTERPRISE ACTIVITIES DURING 1975. THE NEED TO SPEED UP SLOW PROCESS OF INVESTMENT COMPLETION, PHASE OUT THE OPERATIONS OF WEAKER AND UNPROFITABLE ENTERPRISES, THE DISCOURAGEMENT OF EXCESSIVE STOCKPILING AND THE IMPROVEMENT OF THE DETERIORATING HARD-CURRENCY TRADE BALANCE (\$520 MILLION DEFICIT DURING THE FIRST 11 MONTHS OF 1974 ACCORDING TO LATEST CENTRAL STATISTICAL OFFICE FIGURES) WERE ECONOMIC GOALS HEAVILY EMPHASIZED IN END OF YEAR ROUND OF SPEECHES AND ARTICLES ON ECONOMY. IT WILL BE INTERESTING TO SEE HOW SUCCESSFUL TIGHT CREDIT POLICY WILL BE IN ACHIEVING STATED GOALS. COMMERCIAL DIRECTOR OF LARGE INDUSTRIAL TRUST(AGRICULTURE AND FOOD PROCESSING MACHINERY) TOLD EMBASSY OFFICER ON DAY FOLLOWING LASZLO ANNOUNCEMENT THAT BANK'S POLICY WAS UNLIKELY TO HAVE SIGNIFICANT EFFECT ON HIS OPERATIONS AS "OUR FINANCIAL POSITION IS A STRONG ONE," BUT ADDED QUICKLY, "THIS IS LIABLE TO BE TOUGH ON MANY OF THE HEAVY INDUSTRIAL ENTERPRISES." ON QUESTION OF EXCESSIVE STOCKPILING, ENTERPRISES SEEM TO BE IN SOMETHING OF A NO WIN POSITION AS ONLY A FEW SHORT MONTHS AGO THEY WERE BEING URGED IN EFFECT TO "BUY NOW" IN ORDER TO AVOID FUTURE INFLATIONARY PRICE INCREASES FOR WESTERN PRODUCTS.
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